VIASAT INC
Form 10-Q
November 07, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .

Commission File Number (000-21767)

VIASAT, INC.

(Exact name of registrant as specified in its charter)

Delaware	33-0174996
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6155 El Camino Real

Carlsbad, California 92009

(760) 476-2200

(Address of principal executive offices and telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the registrant's common stock, $0.0001 par value, as of October 26, 2018 was 59,650,229.

VIASAT, INC.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

VIASAT, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	As of September 30, 2018	As of March 31, 2018
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$44,458	$71,446
Restricted cash	7,169	—
Accounts receivable, net	268,803	267,665
Inventories	232,078	196,307
Prepaid expenses and other current assets	233,258	77,135
Total current assets	785,766	612,553
Satellites, net	1,124,074	1,239,987
Property and equipment, net	826,299	722,488
Other acquired intangible assets, net	26,072	31,862
Goodwill	122,676	121,085
Other assets	744,740	686,134
Total assets	$3,629,627	$3,414,109
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$165,317	$157,481
Accrued liabilities	250,407	263,676
Current portion of long-term debt	47,702	45,300
Total current liabilities	463,426	466,457
Senior notes	691,497	690,886
Other long-term debt	460,101	287,519
Other liabilities	130,266	121,240
Total liabilities	1,745,290	1,566,102
Commitments and contingencies (Note 8)		
Equity:		
Viasat, Inc. stockholders' equity		
Common stock	6	6
Paid-in capital	1,614,224	1,535,635
Retained earnings	252,107	285,960

Accumulated other comprehensive income	8,376	15,565
Total Viasat, Inc. stockholders’ equity	1,874,713	1,837,166
Noncontrolling interest in subsidiaries	9,624	10,841
Total equity	1,884,337	1,848,007
Total liabilities and equity	$3,629,627	$3,414,109

See accompanying notes to the condensed consolidated financial statements.

VIASAT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

	Three Months Ended		Six Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	(In thousands, except per share data)			
Revenues:				
Product revenues	$280,435	$ 181,783	$498,564	$ 347,901
Service revenues	237,039	211,291	457,779	425,217
Total revenues	517,474	393,074	956,343	773,118
Operating expenses:				
Cost of product revenues	216,900	133,850	390,348	256,495
Cost of service revenues	175,230	135,412	346,662	273,263
Selling, general and administrative	113,120	90,084	225,762	179,257
Independent research and development	31,360	46,268	64,733	91,333
Amortization of acquired intangible assets	2,435	3,320	4,888	6,580
Loss from operations	(21,571)	(15,860)	(76,050)	(33,810)
Other income (expense):				
Interest income	29	177	65	270
Interest expense	(14,074)	(197)	(25,398)	(253)
Loss on extinguishment of debt	—	(10,217)	—	(10,217)
Loss before income taxes	(35,616)	(26,097)	(101,383)	(44,010)
Benefit from income taxes	9,704	11,464	38,909	20,644
Equity in income of unconsolidated affiliate, net	314	741	1,379	228
Net loss	(25,598)	(13,892)	(61,095)	(23,138)
Less: net income (loss) attributable to noncontrolling interests, net of tax	126	(203)	(1,361)	(410)
Net loss attributable to Viasat, Inc.	$(25,724)	$ (13,689)	$(59,734)	$ (22,728)
Basic net loss per share attributable to Viasat, Inc. common stockholders	$(0.43)	$ (0.24)	$(1.00)	$ (0.39)
Diluted net loss per share attributable to Viasat, Inc. common stockholders	$(0.43)	$ (0.24)	$(1.00)	$ (0.39)
Shares used in computing basic net loss per share	59,734	58,229	59,470	58,039
Shares used in computing diluted net loss per share	59,734	58,229	59,470	58,039
Comprehensive income (loss):				
Net loss	$(25,598)	$ (13,892)	$(61,095)	$ (23,138)
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on hedging, net of tax	38	17	(288)	109
Foreign currency translation adjustments, net of tax	(7,104)	6,321	(6,901)	9,846
Other comprehensive (loss) income, net of tax	(7,066)	6,338	(7,189)	9,955
Comprehensive loss	(32,664)	(7,554)	(68,284)	(13,183)

Less: comprehensive income (loss) attributable to noncontrolling interests, net of tax	126	(203)	(1,361)	(410)
Comprehensive loss attributable to Viasat, Inc.	$(32,790)	$ (7,351)	$(66,923)	$ (12,773)

See accompanying notes to the condensed consolidated financial statements.

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VIASAT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six Months Ended	
	September 30, 2018	September 30, 2017
	(In thousands)	
Cash flows from operating activities:		
Net loss	$ (61,095)	$ (23,138)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	128,990	101,659
Amortization of intangible assets	28,281	23,150
Deferred income taxes	(40,528)	(21,313)
Stock-based compensation expense	38,503	31,490
Loss on disposition of fixed assets	26,025	17,853
Loss on extinguishment of debt	—	10,217
Other non-cash adjustments	7,775	4,253
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	(10,595)	7,657
Inventories	(34,173)	(12,455)
Other assets	(9,771)	(18,277)
Accounts payable	19,908	(7,744)
Accrued liabilities	10,396	5,984
Other liabilities	7,576	66,490
Net cash provided by operating activities	111,292	185,826
Cash flows from investing activities:		
Purchase of property, equipment and satellites	(333,466)	(206,627)
Cash paid for patents, licenses and other assets	(21,692)	(36,969)
Proceeds from insurance claims on ViaSat-2 satellite	44,394	—
Proceeds from sale of real property	14,034	—
Other investing activities	(2,339)	—
Net cash used in investing activities	(299,069)	(243,596)
Cash flows from financing activities:		
Proceeds from revolving credit facility borrowings	355,000	—
Payments of revolving credit facility borrowings	(130,000)	—
Payments of Ex-Im credit facility borrowings	(56,386)	—
Proceeds from Ex-Im credit facility borrowings, net of discount	—	52,503
Proceeds from issuance of 2025 Notes	—	700,000
Repayment of 2020 Notes	—	(575,000)
Payment of debt extinguishment costs	—	(10,602)
Payment of debt issuance costs	—	(8,735)
Proceeds from issuance of common stock under equity plans	11,087	14,871
Purchase of common stock in treasury (immediately retired) related to tax	(6,551)	(2,483)

withholdings for share-based awards		
Other financing activities	(3,886)	(757)
Net cash provided by financing activities	169,264	169,797
Effect of exchange rate changes on cash	(1,306)	583
Net (decrease) increase in cash and cash equivalents and restricted cash	(19,819)	112,610
Cash and cash equivalents and restricted cash at beginning of period	71,446	130,098
Cash and cash equivalents and restricted cash at end of period	$51,627	$ 242,708
Non-cash investing and financing activities:		
Issuance of common stock in satisfaction of certain accrued employee compensation liabilities	$32,129	$ 16,409
Capital expenditures not paid for	$6,724	$ 13,003
Exposure fees on Ex-Im credit facility financed through Ex-Im credit facility	$—	$ 5,764

See accompanying notes to the condensed consolidated financial statements.

VIASAT, INC.

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(UNAUDITED)

	Viasat, Inc. Stockholders Common Stock						
	Number of Shares Issued	Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest in Subsidiaries	Total
	(In thousands, except share data)						
Balance at March 31, 2018	58,905,274	$ 6	$ 1,535,635	$ 285,960	$ 15,565	$ 10,841	$ 1,848,007
Exercise of stock options	101,000	—	3,703	—	—	—	3,703
Issuance of stock under Employee Stock Purchase Plan	132,180	—	7,384	—	—	—	7,384
Stock-based compensation	—	—	43,945	—	—	—	43,945
Shares and fully-vested RSUs issued in settlement of certain accrued employee compensation liabilities, net of shares withheld for taxes which have been retired	438,433	—	27,701	—	—	—	27,701
RSU awards vesting, net of shares withheld for taxes which have been retired	73,342	—	(2,123)	—	—	—	(2,123)
Cumulative effect adjustment upon adoption of new revenue recognition guidance (ASU 2014-09)	—	—	—	25,881	—	—	25,881
Other noncontrolling interest activity	—	—	(2,021)	—	—	144	(1,877)
Net loss	—	—	—	(59,734)	—	(1,361)	(61,095)
Other comprehensive loss, net of tax	—	—	—	—	(7,189)	—	(7,189)
	59,650,229	$ 6	$ 1,614,224	$ 252,107	$ 8,376	$ 9,624	$ 1,884,337

Balance at September 30, 2018

See accompanying notes to the condensed consolidated financial statements.

VIASAT, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 1 — Basis of Presentation

The accompanying condensed consolidated balance sheet at September 30, 2018, the condensed consolidated statements of operations and comprehensive income (loss) for the three and six months ended September 30, 2018 and 2017, the condensed consolidated statements of cash flows for the six months ended September 30, 2018 and 2017 and the condensed consolidated statement of equity for the six months ended September 30, 2018 have been prepared by the management of Viasat, Inc. (also referred to hereafter as the Company or Viasat), and have not been audited. These financial statements have been prepared on the same basis as the audited consolidated financial statements for the fiscal year ended March 31, 2018 and, in the opinion of management, include all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the Company’s results for the periods presented. These financial statements should be read in conjunction with the financial statements and notes thereto for the fiscal year ended March 31, 2018 included in the Company’s Annual Report on Form 10-K. Interim operating results are not necessarily indicative of operating results for the full year. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP).

The Company’s condensed consolidated financial statements include the assets, liabilities and results of operations of Viasat, its wholly owned subsidiaries and its majority-owned subsidiaries, TrellisWare Technologies, Inc. and Euro Broadband Retail Sàrl. All significant intercompany amounts have been eliminated. Investments in entities in which the Company can exercise significant influence, but does not own a majority equity interest or otherwise control, are accounted for using the equity method and are included as investment in unconsolidated affiliate in other assets (long-term) on the condensed consolidated balance sheets.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Estimates have been prepared on the basis of the most current and best available information and actual results could differ from those estimates. Significant estimates made by management include revenue recognition, stock-based compensation, self-insurance reserves, allowance for doubtful accounts, warranty accruals, valuation of goodwill and other intangible assets, patents, orbital slots and other licenses, software development, property, equipment and satellites, long-lived assets, derivatives, contingencies and income taxes including the valuation allowance on deferred tax assets.

Revenue recognition

Effective April 1, 2018, the Company adopted Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (commonly referred to as Accounting Standards Codification (ASC) 606). This update established ASC 606, Revenue from Contracts with Customers and ASC 340-40, Other Assets and Deferred Costs – Contracts with Customers.

In order to assess the impact of the new accounting standards, the Company applied the new standards to all open contracts existing as of April 1, 2018. The Company elected the practical expedient to reflect the aggregate effect of all contract modifications occurring before April 1, 2018 when identifying the satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to the satisfied and unsatisfied performance obligations. The aggregated effect of applying this practical expedient did not have a significant impact on the Company’s conclusions.

VIASAT, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

To reflect the adoption of the new standards, the Company elected to use the "modified retrospective method," which resulted in the Company recording the retrospective cumulative effect to the opening balance of retained earnings. The following table presents the summary of the impact of adopting the new standards:

	As of March 31, 2018	Adjustments Due to ASC 606	As of April 1, 2018
	(In thousands)		
Condensed Consolidated Balance Sheets:			
Accounts receivable, net	$267,665	$ (5,664)	$262,001
Inventories	196,307	1,623	197,930
Prepaid expenses and other current assets	77,135	18,098	95,233
Other assets	686,134	17,738	703,872
Accrued liabilities	263,676	5,916	269,592
Retained earnings	285,960	25,879	311,839

The key impact of adoption is the deferral of commissions primarily in the Company's satellite services segment, which were historically expensed as incurred as further described below.

The Company applied the five-step model under ASC 606 to its contracts with its customers to determine the impact of the new standard. Under this model the Company (1) identifies the contract with the customer, (2) identifies its performance obligations in the contract, (3) determines the transaction price for the contract, (4) allocates the transaction price to its performance obligations and (5) recognizes revenue when or as it satisfies its performance obligations. These performance obligations generally include the purchase of services (including broadband capacity and the leasing of broadband equipment), the purchase of products, and requirements to develop and deliver complex equipment built to customer specifications under long-term contracts.

Performance obligations

The timing of satisfaction of performance obligations may require judgment. The Company derives a substantial portion of its revenues from contracts with customers for services, primarily connectivity services including leasing of related broadband equipment. These contracts typically require advance or recurring monthly payments by the customer. The Company’s obligation to provide connectivity services is satisfied over time as the customer simultaneously receives and consumes the benefits provided. The measure of progress over time is based upon either a period of time (e.g., over the estimated contractual term) or usage (e.g., bandwidth used/bytes of data processed). From a recognition perspective, the leasing of broadband equipment is evaluated in accordance with the authoritative guidance for leases (ASC 840). The Company’s accounting for equipment leases involves specific determinations under ASC 840, which may involve complex provisions and significant judgments. In accordance with ASC 840, the Company applies the following criteria to determine the nature of the lease (e.g., as an operating or sales type lease): (1) review for transfers of ownership of the equipment to the lessee by the end of the lease term, (2) review of the lease terms to determine if it contains an option to purchase the leased equipment for a price which is sufficiently lower than the expected fair value of the equipment at the date of the option, (3) review of the lease term to determine if it is equal to or greater than 75% of the economic life of the equipment, and (4) review of the present value of the minimum lease payments to determine if they are equal to or greater than 90% of the fair market value of the equipment at the inception of the lease. Additionally, the Company considers the cancelability of the contract and any related uncertainty of collections or risk in recoverability of the lease investment at lease inception. Revenue from sales type leases is recognized at the inception of the lease or when the equipment has been delivered and installed at the customer site, if installation is required. Revenues from equipment rentals under operating leases are recognized as earned over the lease term, which is generally on a straight-line basis.

The Company also derives a portion of its revenues from contracts with customers to provide products. Performance obligations to provide products are satisfied at the point in time when control is transferred to the customer. These contracts typically require payment by the customer upon passage of control and determining the point at which control is transferred may require judgment. To identify the point at which control is transferred to the customer, the Company considers indicators that include, but are not limited to whether (1) the Company has the present right to payment for the asset, (2) the customer has legal title to the asset, (3) physical possession of the asset has been transferred to the customer, (4) the customer has the significant risks and rewards of ownership of the asset, and (5) the customer has accepted the asset. For product revenues, control generally passes to the customer upon delivery of goods to the customer.